



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 8**

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5/16/2023

Mr. Ken Hoffman, P.E.
Engineering Section Manager
Utah Division of Water Quality
PO Box 144870
Salt Lake City, Utah 84114-4870

Dear Mr. Hoffman:

The U.S. Environmental Protection Agency, Region 8, has conducted an annual review of the Utah Water Quality Clean Water State Revolving Fund (CWSRF) for State Fiscal Year (FY) 2022 (July 1, 2021 through June 30, 2022) in accordance with the EPA's State Revolving Fund (SRF) Annual Review Guidance.

The grantee has been and remains the Division of Water Quality (Division) in the Utah Department of Environmental Quality (UTDEQ). Duties include developing the Intended Use Plan (IUP) and Project Priority List, as well as serving as project managers that work with communities on planning, design, financing, and construction of projects. The required 20 percent state match is provided by state sales tax revenue that is initially deposited into Utah's "state" loan fund and transferred into the CWSRF as match when needed. CWSRF assistance is currently provided with a variable "effective" interest rate based on several factors including: cost effectiveness ratio, funding from other sources, local median adjusted gross income, applicant's financial contribution, applicant's ability to repay the loan, debt load, growth, and other similar factors. The amount of the "effective" interest rate may be reduced based on the applicant's ability to repay the loan. The Division will either charge true interest or a hardship grant fee. The Division also provides disadvantaged community assistance through extended financing and/or principal forgiveness.

The scope of the annual review includes consideration of the technical, financial, and operational capabilities and performance of UTDEQ in administering its SRF. EPA conducted its first in-person review at the state offices in Salt Lake City, UT since COVID began. The review occurred Tuesday, February 14, 2023 - Wednesday, February 15, 2023, which included meeting with the SRF program manager and financial staff to discuss operation of its CWSRF. The annual review also consisted of an analysis of the FY22 and FY23 IUPs, FY22 Utah CWSRF Annual Report, unaudited financial statements, project file review for two base projects (Payson City and Mountain Green Sewer Improvement District), Utah CWSRF financial indicators, and the following four cash draws:

CS490001-21; \$75,000; May 6, 2022
CS490001-21; \$2,521,199.00; April 6, 2022
CS490001-20; \$7,958,000.00; April 6, 2022
CS490001-19; \$51,625.25; September 9, 2021

Observations

The Division manages its CWSRF program in accordance with applicable statutes, regulations, and guidance. The EPA, Region 8, lists program observations below.

The Utah CWSRF cash draws tested for this annual review all complied with 40 CFR Part 35.3155(d)(5), which requires that cash draws will occur at an 83.33 percent federal proportionate share (and match will be at 16.67 percent), or that 100 percent of the match will be disbursed prior to the state drawing federal cash from a specific grant. The state is spending the entire match amount for the grant prior to drawing federal funds. The Utah CWSRF is managed in conjunction with the “state” loan fund and hardship grant program to optimize funding packages for utilities and address water quality priorities of the state. Environmental reviews for projects are completed well, and the Division works closely with Utah communities to provide project management for water quality projects.

Unliquidated Obligations

The Utah CWSRF currently (as of March 31, 2023) has approximately \$16.5 million in unliquidated obligations (ULOs), which equals a 94 percent outlay rate. The ULO is almost solely due to the recent funding of the two - Bipartisan Infrastructure Law (BIL) grants at the end of FY22. The state has already spent 98 percent of funds from the FY20 base grant and 95 percent of the FY21 grant. The state has dramatically reduced the ULOs on the base grants and will work toward spending the FY22 base grant (\$6.1 million), general supplemental BIL grant (\$9.3 million) and the emerging contaminant grant funds (\$493k). The program has authorized and/or funded projects beyond the FY22 capitalization grants and remains overcommitted for a second year. Through careful cash management, they do not foresee this as a problem for disbursements due to the lag time it takes for larger projects to begin construction prior to requesting funds. The FY22 IUP identified \$350 million in project needs showing a strong demand for base funding and the additional BIL project funds the state has received in FY22 and will receive in FY23.

CWSRF Project Progress

The Utah CWSRF is summarized as of June 30, 2022 in the table below:

TABLE I: CWSRF Program Summary (\$ Millions)				
Utah CWSRF Funds Available for Projects	Project Assistance	Fund Use Rate	Project Disbursements	Pace of Construction
\$683.8	\$731.8	107%	\$638.5	87%

At the end of FY22, the Utah CWSRF had a fund use rate of 107 percent, remaining constant from last year, an excellent result. This increase was the result of the loan closing for Provo City in October 2020 for \$77.8 million. There have already been \$26.7 million in loan closings so far for FY22, so project

demand remains strong, and the state will have plenty of projects to spend down the upcoming grant money from BIL.

The pace of construction increased slightly from 85 to 87 percent, which is a satisfactory result now that some of the recently funded high dollar projects are starting construction. The pace of construction should continue to improve as construction progresses. The Division provides good project management and conducts frequent inspections to ensure projects are constructed in a timely manner and achieve water quality benefits. Also, dividing the \$638.5 million in construction expenses by \$262.1 million in federal cash draws, Utah's cumulative CWSRF *Federal Return* increased from 2.38 to 2.44, yielding the 5th consecutive year of increase, a good result.

A key component of strategic SRF fund management is the balancing of cash inflows and outflows. The following ratio shows how efficiently Utah's CWSRF is revolving by examining the program's disbursement rate over a set time-period and comparing it to the amount of cash on hand. The ratio is calculated by subtracting total project disbursements (\$638.5 million) from total funds available (\$683.8 million) and comparing this number (\$45.3 million) to the average annual disbursements over the past three years (\$58.9 million). For the Utah CWSRF, this ratio is 0.77 (years), a decrease from 2.21 at the end of FY20, which is an excellent result.

Utah CWSRF project milestones accomplishments from the National Information Management System (NIMS) are as follows (in \$ Millions):

- Utah CW Funds Available: \$668.4 million
- Project Assistance: 129 projects at \$731.8 million
- Construction Starts: 128 projects at \$661.8 million
- Project Completions: 119 at \$465.7 million

For the overall "revolving rate of Utah CWSRF funds", as of June 30, 2022, the percentage of construction disbursements (\$638.5 million) divided by total CWSRF funds available (\$683.8 million) was 93 percent, an excellent result. The percentage of completed projects (\$465.7 million) relative to CWSRF funds available (\$668.4 million) was 70 percent, a decrease of two percent. This metric is expected to lag behind some of the other SRF metrics until the recently funded, larger projects are completed.

Green Project Reserve, Additional Subsidy and Equivalency

The UTDEQ Water Quality Division has met green project reserve requirements for their grants through FY21 grant. Following the decision to close-out the FY17 and FY18 grants last year with no associated GPR to report, the state was able to catch up on their GPR requirement with the Provo City new wastewater treatment plan project, which will cover the GPR requirement for the FY19-21 grants. They are working toward meeting the grant requirement for all the base and BIL grants for FY22. Utah has met the additional subsidy requirement through the FY21 grant. Lastly for equivalency, the state has reported projects to meet all grants through the FY21 grant.

Financial Sustainability

Based on information from the SRF Data System, the CWSRF had a cumulative *Net Return* amount

(interest payments and interest earnings) of \$46.1 million as of June 30, 2022. The *Net Return as a % of Contributed CWSRF Capital* (contributed capital being the sum of federal outlays and deposited state match minus subsidy) is 14.76 percent, which is a good result. These calculations do not factor in the funds generated from hardship assessment fees that Utah has collected on CWSRF assistance and placed in an account outside the CWSRF to fund water quality projects that further the goals and objectives of the Clean Water Act.

Financial Management and Proportionality

The Utah CWSRF has had no defaults and all municipal loans are secured by revenues from user charges and/or full faith and credit of the borrowing entities. The total net assets (based on unaudited financial statements) as of June 30, 2022 was \$337.6 million, an eight percent increase from the 2021 net assets of \$313.9 million. Since the state has deposited and disbursed match prior to drawing federal funds, all four cash draws listed on page one above were done with a 100 percent federal proportion. Furthermore, the payment requests for the cash draws were for eligible costs and were adequately documented. No costs were questioned and there were no improper payments.

For the year ending June 30, 2022, UTDEQ did not have an independent financial statement and compliance audit for the CWSRF. Currently, the Division does not have a separate financial statement and compliance audit conducted of its CWSRF program. While this is not required by SRF regulations, Region 8 recommends that this type of audit be performed annually. On a related topic, on March 17, 2023 the Utah Auditor completed its report required by the Single Audit Act and OMB Circular A-133. The report did not include any compliance findings, questioned costs, or recommendations for the Utah CWSRF.

Prior Recommendations

The Division should consider having a separate financial statement and compliance audit conducted for its CWSRF.

Resolution: Region 8 will continue recommending a separate financial statement and compliance audit for its CWSRF. The EPA financed such an audit of Utah's FY10 financial statements.

New Recommendations

There are no new recommendations with this review.

Sincerely,

Benjamin Bents
Manager
Technical and Financial Services Branch

cc: Ms. Emily Cantón, Assistant Director